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The influence of CSR and CEO narcissism on financial performance with earning management as mediation

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Abstract

The purpose of the study was to look into how CEO narcissism and corporate social responsibility (CSR) affected financial success within the manufacturing industry listed on the Indonesia Stock Exchange (IDX) between 2017 and 2021. Employing a quantitative approach, the research adopted a causal design to provide insights into the importance of CSR and CEO narcissism in influencing financial performance. Sampling 193 manufacturing companies listed on the IDX through purposive sampling, the study utilized secondary data consisting of annual reports and sustainability reports sourced from the IDX website and respective company portals. Employing panel data regression analysis with the fixed effect method in E-views version 12, the study's findings revealed a significant influence of CSR on financial performance. However, CEO narcissism demonstrated an insignificant effect on financial performance. Moreover, the analysis indicated that earnings management did not mediate the link between financial performance, CEO narcissism, and CSR. By shedding light on the study advances knowledge of the variables influencing company performance by examining the relationship between CSR, CEO narcissism, and financial performance within the manufacturing sector in Indonesia. These findings hold implications for corporate decision-makers, policymakers, and stakeholders in fostering sustainable business practices and effective leadership strategies. Additionally, the study underscores the importance of further research to explore nuanced interactions among CSR, CEO characteristics, and financial outcomes for comprehensive insights into corporate behavior and performance.

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Keywords: Corporate social responsibility, CEO narcissism, Financial performance, Earnings management

1. Introduction

The corporate world has changed drastically in the last fifty years, notably [1], and this has an effect on many other things, including people's quality of life. Indonesia's economy grew by 5.44% in the second quarter of

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2022 despite several global economic issues, including COVID-19, the wars in Russia and Ukraine, climate change, rising commodity prices, and rising living expenses. Businesses need to make improving their financial performance a top priority considering the current circumstances. The growing rivalry in business underscores this even more as depicted in [2]. New phenomena regarding CEO narcissism, CEO narcissism refers to a leadership style characterized by excessive self-admiration, a sense of entitlement, and a desire for power and recognition. Narcissistic CEOs often exhibit grandiose visions and bold strategies, aiming to leave a lasting legacy. However, their need for admiration and control can lead to risky decision-making, a lack of empathy towards employees, and resistance to feedback. While their charisma and confidence can inspire and drive organizations forward, the potential for unethical behavior and the prioritization of personal interests over the company's well-being present significant challenges. Balancing the dynamic and visionary aspects of narcissistic leadership with a focus on ethical governance and stakeholder interests is crucial for sustainable success.

Return on Assets (ROA), particularly for industrial businesses listed on the Indonesia Stock Exchange, is a valuable indication of financial success, as demonstrated by the data phenomena. The ROA averaged 4.55% in 2015. The return on assets (ROA) increased to 7.31% in 2016. But the ROA fell to 6.06% in 2017 and then to 5.89% in 2018, before eventually leveling off at 5.67% in 2019 [3]. For businesses, the decline in ROA can be problematic because it has a direct bearing on their bottom line. However, stakeholder demands that businesses consistently enhance their performance under all conditions have led to a rise in corporate competitiveness in this age of globalization [4]. Based on an analysis of the Business Competition Index (IPU) by the Commission for the Supervision of Business Competition (KPPU) in association with the Center for Economics and Development Studies (CEDS), it was discovered that at 4.81 on a scale of 1 to 7, business competition in Indonesia has peaked and is expected to continue rising through 2021. Companies must link financial performance to corporate social responsibility (CSR) initiatives in order to gauge stakeholders' expectations [5]. Initially, corporate social responsibility was practiced freely to improve society's perception. Nonetheless, Investment Law No. 25 of 2007 and Limited Liability Company Law No. 40 of 2007 were passed in 2007. Corporate social responsibility is described in [6] as an acceptable way to give back to the community. The amount of public interest in corporate social responsibility (CSR) has been steadily increasing over the last ten years, as demonstrated by the 20% rise in 2021 in the number of sustainability reports filed on the Indonesia Stock Exchange, with around 154 businesses registered in the SPE-IDXNet system.

Notwithstanding the increasing attention, CSR disclosure frequently faces setbacks and infractions. A specific instance of this can be found in the CSR violations that PT Sumber Alfaria Trijaya Tbk committed in 2015. Specifically, the company combined the use of donation funds and CSR in the annual report, which was against Law No. 40/2007 and Government Regulation No. 47/2012, and violated regulations pertaining to the company's social and environmental responsibilities.

Diverse prior research endeavors have yielded disparate findings about the impact of corporate social responsibility reporting on financial outcomes. According to research by [7], financial performance is positively impacted by corporate social responsibility (CSR). Nevertheless, research by [8] produced conflicting findings, concluding that financial performance is unaffected by CSR reporting. Moreover, the conduct of the person holding the position of corporate leader—often referred to as the President, Director, or Chief Executive Officer—has a significant impact on a company's financial success [9]. As stated in [10], distinct attributes possessed by CEOs can influence decision-making when it comes to formulating the company's strategy, thereby impacting the financial success of the organization. Narcissistic conduct is one way a CEO might affect the performance of a firm.

The story of PT. Garuda Indonesia Group, which reported a net profit of USD 809.85 thousand, or 11.93 billion, in 2018, raises fascinating questions about the narcissistic attitude of CEOs in Indonesia. This amount increased significantly in comparison to the USD 216.5 million loss in 2017. The results of the audit showed that money that had not really been received had been fraudulently recognized. The organization forced all its workers to

behave in a way that suited its whims, which led to this deception. The paper said that this instance shows how the caliber of financial reporting might be jeopardized by a strong CEO who can act in their own self-interest [11].

Another incident that happened was when the Financial Services Authority (OJK) fined Benny Tjokrosaputro, the CEO of PT. Hansen International Tbk (MYRX), IDR 5 billion. This was because it was discovered that MYRX had recorded revenue for the sale of ready-to-build land with a gross value of IDR 732 billion using the full accrual method. Furthermore, it was discovered that MYRX had flagrantly broken capital market requirements by failing to include the Sale and Purchase Agreement (PPJB) for the land in the financial statements for the December 2016 period. The aforementioned phenomena lead [12] to the conclusion that the application of administrative strategies to arrange a financial transaction and falsify accounting data in order to deceive readers of financial statements is a reliable indicator of financial performance. Chief executive officers, or CEOs in this instance, have been involved in every major accounting controversy.

The influence of CEO narcissism on financial performance has been the subject of several prior studies, with varying degrees of success. Research by [13] claims that a CEO's narcissism can improve the company's financial success. Nevertheless, research by [14] found conflicting results, concluding that CEO narcissism does not affect financial success.

On the other hand, in [15] managers and senior executives can participate in earnings management to increase a business's profits, which eventually impacts the performance of the organization. The truth is that since the epidemic, businesses have increased their use of profit management strategies, especially to evade taxes. In PT Sejahtera Food Tbk, an unbalanced phenomenon was discovered between 2007 and 2009. The profit was evaluated at IDR 15,767,000 in 2007. By the end of 2009, it had grown to IDR 37,485,000 in 2008 and IDR 37,823,000 in 2009. The stock price, on the other hand, displayed the reverse pattern, peaking at IDR 649 in 2007 and falling to IDR 389 in 2008 before closing the year at IDR 329. Up until 2011, this phenomenon persisted.

In the instance of PT Ernst & Young, financial accounts for the year 2017 were restated in 2020, illustrating yet another occurrence. The business declared a net loss of IDR 5.23 trillion in 2017. Nevertheless, the company's 2020 restatement showed that it had suffered a net loss of IDR 551.9 billion. Companies can use earnings management as a technique to attain the desired business performance through the aforementioned occurrence.

The existence of social responsibility initiatives meant to boost a business's bottom line offers management a big chance to use earnings management techniques. This is due to the fact that CSR initiatives can elicit favorable reactions from the public and investors [16]. Earnings management can improve the connection between CSR and financial performance, according to a study by [17]. However in [15] study, on the other hand, produced different results, indicating that earnings management did not act as a mediator in the link between CSR and ROA. CEO narcissism also affects earnings management [18]. CEOs have access to flexible accounting procedures through financial reports, where earnings are typically viewed as a critical signal to evaluate their performance. This gives them the ability to falsify financial figures. A CEO's decision-making is influenced by their traits, which also have an effect on the caliber of earnings shown in financial reports and, ultimately, the performance of the firm. Earnings management has the potential to mitigate the impact of CEO narcissism on a company's success, as per [19]. Nevertheless, a second study by [20] found no connection between CEO narcissism and financial success, nor between earnings management and earnings management. The importance of investigating the mediating or intervening variables in this study to ascertain whether the dependent variable still indirectly influences the independent variable through the mediating variable is thus highlighted by the relationship between earnings management, CSR variables, CEO narcissism, and financial performance.

The study concentrates on manufacturing firms that are listed on the Indonesia Stock Exchange (IDX), as they are a major force behind national industrial growth. This is clear from the fact that 40% or more of all the firms

registered on the IDX are manufacturing enterprises [21]. Furthermore, the diverse activity features of manufacturing enterprises allow them to openly reveal their CSR policies and participate in a range of social activities [22]. The manufacturing sector contributes the most to employment and foreign exchange profits for the nation, making it the largest and most robust sector during times of crisis [23]. Given the manufacturing sector's substantial contribution, it is thought to offer insights into the Indonesian economy.

The return on assets (ROA) variable in this study is used to quantify financial performance. Because ROA measures a company's potential to turn a profit and can be steadier to monitor using than equity or sales, it is often used as a stand-in for financial performance [24]. Furthermore, in [25] ROA shows how well a business manages its assets; a greater ROA suggests that the business can meet its commitments to creditors and investors. Additionally, in [26] it shows how well management is able to control and enhance financial performance.

1.1. Research questions

Based on the phenomenon and research gaps, this study aims to answer the following research questions:

1. Does corporate social responsibility have an impact on financial performance?
2. Does CEO narcissism have an impact on financial performance?
3. Does corporate social responsibility have an impact on financial performance with earnings management as a mediator?
4. Does CEO narcissism have an impact on financial performance with earnings management as a mediator?

2. Theoretical review and hypothesis development

2.1. Upper echelon theory

Research by [27] asserts that leaders are essential in determining how best to allocate resources and make strategic decisions. The ideals, attitudes, and views of senior management have a big impact on a company's results, according to [11], who initially proposed the upper echelon theory. Furthermore, explained by this idea is how a leader's expertise, convictions, and personal traits all affect them [9]. Furthermore, because a company's success reflects its top management, the upper echelon theory highlights the significance of examining the traits of each executive and board member [13]. According to this thesis, managers have a direct influence on the results of organizations since they are the primary strategic decision-makers within the company. This is so because leaders have overall responsibility for the company, and their traits, actions, and methods have a big impact on organizational results [13]. This hypothesis motivates scholars to investigate how the traits of the CEO affect the actions or results of the firm. According to [23], a CEO's level of confidence and their company's capacity for innovation are strongly correlated. Based on this research, several scholars link good attributes and features a leader should have to narcissistic tendencies in CEOs. Research in [28] points out that charm, authority, self-assurance, and a feeling of superiority are all linked to narcissism. Studies have also connected narcissism to unfavorable characteristics, though. For instance, the incapacity to learn from mistakes, conceit, and self-interest are all linked to narcissism.

2.2. Legitimacy theory

As per reference [29], the notion of legitimacy is based on the conduct of institutions operating within the dominant framework, as well as societal norms and beliefs. The connection between business and society is the main emphasis of legitimacy theory. According to this view, as organizations are a part of society, they ought to consider the social norms of the neighborhood since doing so might increase a business's legitimacy. Organizations require legitimacy to function within the confines established by societal norms and values. This establishes the need to examine organizational behavior considering society and the environment. Legitimacy theory according to [30] essentially refers to the social compact that exists between society and firms since

businesses rely on a variety of financial resources to operate. CSR is based on the principle of legitimacy, which states that a company's legitimacy evolves as its operating environment and society do. Shifts in legitimacy might be attributed as in [31], for example, to modifications in social norms and values as a result of the advancement of human civilization. According to legitimacy theory, a business that believes its actions are anticipated by the community would willingly disclose them. Businesses will always try to make sure that their operations adhere to the social mores of the communities in which they are located. Moreover, according to [32] it is possible to view organizational legitimacy as something that society bestows upon a firm as well as something that the company wants or seeks out from society, as resources or advantages that may be necessary for the company to survive.

2.3. Agency theory

An individual or group of individuals (parties) can enter into a contractual model, or nexus of contract, using agency theory. In economics, according to [33] the person who controls the use and control of resources is called the manager (agent), while the person who provides the resource (principal) is called the manager. This idea in [34] states that in compliance with the terms of the employment contract, the principal assigns decision-making authority to the agent. According to [35] managers or CEOs run their businesses by managing earnings, which is often a negative activity given the opportunities that agents have and the imbalance between the agent and the principal as outlined in agency theory. The reason behind the rise of earnings management may be explained by agency theory. To reach the projected profits, managers frequently alter earnings [36]. Increased management and business performance are two benefits of the firm's high value, which also improves the company's future prospects. In order to better understand how CEO narcissism and CSR behaviors affect financial success, academics should look at earnings management as a mediator.

2.4. Financial performance

Financial performance, according to [37], is the process of precisely evaluating a company's strategy for putting numerous financial requirements into practice. A company's state and the accomplishments it has made throughout time may be seen through its financial performance. Based on [36], Return on Assets (ROA), which compares pre-tax earnings to total assets, can be used to characterize financial success. In [38] an organization's or company's resources are also considered as its assets. Return on assets (ROA) is chosen as the primary measure of financial performance due to its comprehensive reflection of how efficiently a company utilizes its assets to generate earnings. Unlike other metrics, ROA accounts for both profitability and asset management, providing a clear indicator of operational efficiency. By considering the total assets, it offers a holistic view of performance, making it especially valuable for comparing companies of different sizes and industries. This focus on ROA ensures a more balanced and insightful assessment of a firm's financial health and operational success. In essence, assets fall into two categories: non-current assets, or fixed assets, and current assets. Non-current assets are defined as assets that are anticipated to be realized or liquidated within a year or within a single business cycle of the firm in PSAK No. 9, which regulates current assets and short-term liabilities. According to another definition in [39], current assets are those that can be sold and used up within a year or the company's regular operating cycle, or they might be assets that are anticipated to be turned into cash.

2.5. Earning management

In order to accomplish certain objectives, such as raising or lowering accounting earnings in accordance with interests, management measures conducted during the compilation of financial statements are referred to as earnings management [40]. The division of responsibilities among capital owners can lead to earnings management and substantial prospects. To meet goals, managers will try to provide outcomes that satisfy capital owners. Initiatives like pay raises or bonuses, among others, may result from this [41]. Earnings management is measured by analyzing discretionary accruals, which are adjustments made to financial statements that can be influenced by management's judgment. One common method is the Modified Jones Model, which separates total accruals into non-discretionary (expected) and discretionary (manipulable) components. By estimating the

normal level of accruals based on firm-specific factors, such as sales growth and property, plant, and equipment, any significant deviations are attributed to discretionary accruals. These deviations serve as an indicator of earnings management, revealing the extent to which management may be manipulating earnings to meet certain targets or expectations.

2.6. Corporate social responsibility

Corporate social responsibility (CSR) is the attitude shown by a company in terms of its commitment to stakeholders or the interests of the company to take responsibility for the impacts of its activities or operations, including social, economic, and environmental aspects. It claims that the effects of CSR are beneficial to society and the environment [42]. The disclosure of CSR is one of the pieces of information shared with third parties as part of the company's annual report and/or sustainability report. In [43] corporate responsibility activities are undertaken because companies also need a conducive social environment to conduct their business peacefully. In other words, businesses need legitimacy from the surrounding community.

According to [44], CSR is inseparable from the Triple Bottom Line, where companies should focus on three pillars: economic (profit), environmental (the planet), and social (people). These three pillars serve as a benchmark for evaluating a company's success in conducting CSR activities. The CSR activities expressed by companies are based on the broadest global guidelines provided by the Global Reporting Initiative (GRI), namely GRI G4 [45]. In this context, the Global Reporting Initiative G4 serves as the main guideline for writing sustainability reports for companies.

2.7. The effect of corporate social responsibility on financial performance

According to legitimacy theory, as companies are a part of society, they should be aware of societal norms and obey them since this might increase their legitimacy [27]. Organizations need legitimacy because societal norms and values establish limits, and how people respond to these boundaries determines how essential it is to examine how an organization behaves regarding its surroundings. This idea entails realizing that running a business or enhancing financial performance requires more than simply making a profit; it also entails protecting the environment and promoting human welfare. A company's ability to grow sustainably is directly tied to the idea of corporate responsibility. Companies must base their business decisions and operations on their present and future social and environmental implications in addition to profits, according to the idea of social responsibility.

According to a study by [8], corporate social responsibility has an impact on financial performance, particularly return on assets (ROA). In a similar vein, [46] also asserts that as CSR initiatives increase consumer happiness and can improve financial performance, they have a favorable impact on financial performance. Similar findings are demonstrated by [47], which demonstrates how CSR has a major impact on financial performance. Similar conclusions were also made by [48], suggesting that corporate social responsibility (CSR) can improve business performance. Nevertheless, the study carried out by [49] yielded contrasting findings, demonstrating that CSR disclosure had no effect on the financial success of businesses.

H1: Corporate social responsibility has a significant influence on financial performance.

2.8. The effect of CEO narcissism on financial performance

According to upper echelon theory, senior managers have particular traits that affect the organization's results since they are the primary strategic decision-makers in the company [18]. Narcissism, which is defined as conduct marked by an exaggerated perspective of oneself and a sense of superiority, uniqueness, and specialness in comparison to others, is one trait shared by CEOs. People who exhibit high levels of narcissistic behavior are driven to achieve goals and have a beneficial impact on the performance of their companies, according to [50]. This is in line with studies by [20], which demonstrate the potential influence of CEO narcissism on financial success. In a similar vein, [20] discovered that financial performance is positively impacted by CEO narcissism. This is not the case, though, with studies [36] and [13] finding no particular correlation between CEO narcissism

and financial performance. CEO photo size has been identified as a visible and symbolic indicator of self-promotion and narcissism in several psychological and organizational behavior studies. Narcissistic individuals tend to seek admiration and visibility, and prominently displaying large photos in corporate communications can be an expression of these traits. Previous research has found a significant correlation between CEO traits photo size and narcissistic personality. For example, studies by [51] and [52] have documented that larger CEO photos are associated with higher levels of narcissism as measured by established narcissism scales. These studies provide a robust empirical foundation for our use of this measure. In the practical context of corporate governance and leadership, the size of a CEO's photo is an observable and straightforward metric that can be consistently applied across different firms. This makes it a useful proxy for narcissism, especially when more direct psychological assessments are not feasible.

H2: CEO narcissism has a significant influence on financial performance.

2.9. The mediation effect of earning management on the effect of CSR on financial performance

According to the legitimacy hypothesis, businesses will try to make sure that they follow social norms or the rules of the area in which they operate. This endeavor is also in line with agency theory, which holds that agents may choose to behave in their own interests rather than the principal's best interest. Additionally, managers have the ability to falsify reported income, which lowers tax obligations. Because CSR adoption creates good emotions from investors and the public, it can make internal management more flexible when it comes to profit management methods by allowing fraudulent acts to go undetected. Research in [46] shows how the impact of CSR on financial success may be mitigated through earnings management. In the paper by [15] asserts that a number of the consequences of CSR on financial success may be somewhat mitigated by earnings management. Allocating unrecognized earnings from prior years is known as earnings management, and it can lead to better financial performance. However, [8] asserts that there is a way to improve the connection between CSR and financial performance through profit management.

H3: Earnings management mediates the effect of corporate social responsibility on financial performance.

2.10. The mediation effect of earning management on the effect of CEO narcissism on financial performance

According to upper echelon theory [18], narcissistic people are known to take risks, particularly if they believe they will help them seize possibilities for success. The agency hypothesis, which gives agents the power to run the business in their own best interests rather than the principal's, helps to explain this potential. Management frequently uses earnings management as part of their attempts to enhance financial performance in order to highlight the company's earnings power and provide attractive financial statements and ratios in order to draw in new investors and raise stock prices [53]. In paper [20] demonstrates that there is a positive correlation between these three factors and that CEO narcissism affects accrual-based and real earnings management actions. Moreover, research by [15] shows that financial performance benefits from earnings management. And demonstrates that the impact of CEO narcissism on financial success is mediated by earnings management. In a similar vein, [8] shows that earnings management acts as a mediator between CEO narcissism and financial performance.

H4: Earnings management mediates the effect of CEO narcissism on financial performance.

3. Research methodology

3.1. Population and data

Manufacturing firms that are listed on the Indonesian Stock Exchange (BEI) between 2017 and 2021 are the study's research object. There are 193 registered firms in the population, which is the highest amount. The judgment sampling approach, a non-random sample method based on particular factors, was used with the

purposive sampling method to accomplish the sampling. Usually, the goals or problems of the research are taken into consideration while choosing samples.

Table 1. Sampling criteria

No.	Description	Number of companies
1.	Manufacturing companies listed on the IDX in 2017-2021	193
2.	Manufacturing companies that do not publish complete annual financial reports during the 2017-2021 research period	11
3.	Manufacturing Companies that did not publish a complete sustainability report during the 2017-2021 research period	63
4.	Manufacturing companies that did not earn profits in the 2017-2021 research period.	10
5.	Manufacturing Companies that did not conduct a complete audit during the 2017-2021 research period	18
	Number of companies in the sample	94
	Total Sample based on year of observation = 5x94	470

Source: Data processed

3.2. Definition of variables

In order to further facilitate the understanding, measurement, and source data acquisition needs to be done operational definition of the variables used in this study. Table 2 shows the definition of each variable used. Measurement and source data collection must be completed in order to operationalize the variables employed in this study and to aid in comprehension. The definitions of each variable utilized are displayed in Table 2.

Table 2. Definition of variables

Variable	Proxy	Measurement	Source
Financial performance (Y)	ROA	Net Income after Tax Total asset	[24]
CSR (X1)	GRI Standard	Based on 91 GRI Indicators. The score is given when the company makes appropriate GRI disclosures	[45]
CEO narcissism (X2)	CEO Photo size	1. Score 1 if there is no photo of the CEO in the annual report or no annual report in the year of measurement. 2. Score 2 if the CEO is photographed with other Executives, 3. Score 3 if the CEO takes the photo himself and the photo is occupied by less than half of the page. 4. Score 4 if the CEO took the photo himself and included the text in some space on the page. 5. Score 5 if the CEO only takes photos and the photos occupy more than half of the page	[13]
Earning management (Z)	Discretionary accrual	DAit = TAit – NDA it Where: DA: Discretionary accrual TA: Total accrual NDA: Non-discretionary accrual	[48]

4. Result and discussion

4.1. Definition of variables

The results of the data normality test in this study used a normal probability plot graph as presented in Figure 1.

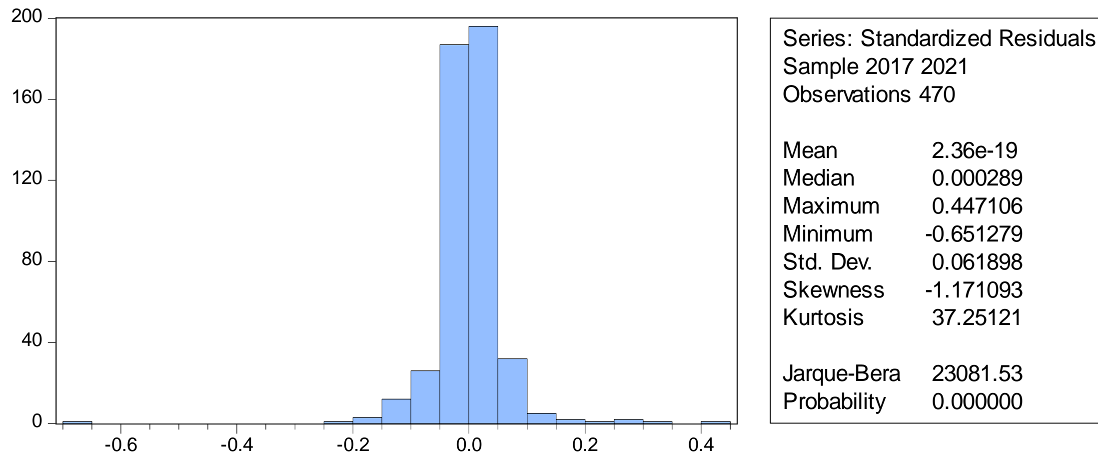

Figure 1. Normality test result

Figure 1 shows that the Jarque-Bera test has a significance value of 0.0000 less than 0.05, indicating that the residuals of this model are not normally distributed. To make the data normal, in [54] an outlier data approach can be used.

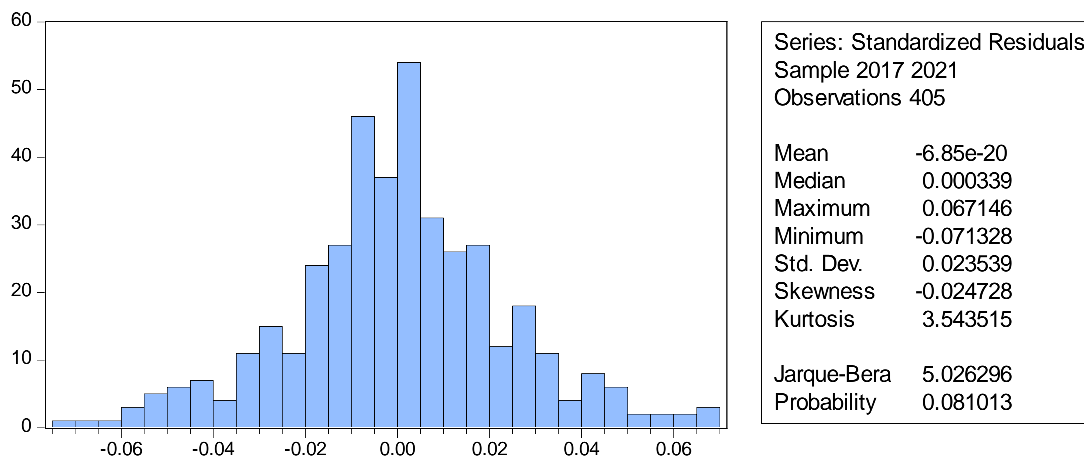

Figure 2. Normality test result after outlier data

After outlier data processing, the normality test of the model is shown in Figure 2, indicating that the Jarque-Bera test value for the 405 samples has a significant value of 0.081013 more than 0.05, indicating that the residuals of this model are normally distributed.

Table 3. Multicollinearity test result

Correlation	CSR	CEO narcissism	EM	ROA
CSR	1.000000			
CEO narcissism	0.319398	1.000000		
EM	-0.023697	0.039883	1.000000	
ROA	0.183643	0.195767	0.239554	1.000000

The correlation values between the independent variables may be analyzed to look for multicollinearity, as Table 1 illustrates. All independent variables have low correlation values, below 0.90, as the table shows. It is clear from these test results that the regression model's multicollinearity is not a problem. In order to find out if the regression model has heteroskedasticity, apply the heteroskedasticity test. Heteroskedasticity should not be

present in a decent regression model. Heteroskedasticity is found using the Glejser test. The following are the findings of the heteroskedasticity test:

Table 4. Heteroscedasticity Glejser test results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.010118	0.008040	1.258393	0.2092
CSR	0.017329	0.029884	0.579878	0.5624
CEO marcissism	0.001366	0.001921	0.711205	0.4775
Earning management	-0.000295	0.007794	-0.037834	0.9698

Table 4 shows the Glejser test results, where the probabilities for CSR, CEO narcissism, and earnings management are 0.5624, 0.4775, and 0.9698, respectively. The probability values for all variables are more than 0.05, indicating that the panel model does not suffer from heteroskedasticity.

The panel data method is used to address the intercorrelation between the independent variables, which can lead to incorrect regression estimates. To determine the appropriate panel data regression model, the Chow test, Hausman test, and Lagrange Multiplier test can be conducted.

Table 5. Estimation model result

Type of test	Probability value	Output model
Chow Test	0.000	Fixed Effect Model
Hausman Test	0.000	Fixed Effect Model
Lagrange Multiplier Test	No Testing	Fixed Effect Model

The fixed effect and common effect models are selected using the Chow test. Table 5 displays the results of the Chow test, which show that the fixed effect model outperforms the common effect model, whose p-value is 0.000 less than 0.05.

Additionally, the Hausman test is run to identify the optimal model between a random effect and a fixed effect. The fixed effect model, whose p-value is less than 0.05, appears to be superior to the random effect model, according to the Hausman test results. The fixed effect model is the most appropriate, based on the consistent findings from the two previous experiments. Consequently, there is no longer a need for the Lagrange Multiplier test.

4.2. Hypothesis testing

With profits management serving as the mediating variable, this study looks at the effects of CEO narcissism and corporate social responsibility (CSR) on the financial performance of manufacturing businesses listed on the Indonesian Stock Exchange (BEI) between 2017 and 2021. Panel data regression is used in the hypothesis testing process, utilizing the Sobel Test for indirect hypotheses and the T-test for direct hypotheses. E-views 12's fixed effects model is used for the analysis. Table 5 displays the regression results.

Table 5. Regression earning management results

Variable	Coefficient	Std. error	t-Statistic	Prob.
C	0.176570	0.056640	3.117424	0.0020
CSR	-1.194996	0.203031	-5.885773	0.0000
CEONARSIS	-0.004107	0.013732	-0.299105	0.7651

According to the regression analysis, CEO narcissism has a coefficient of -0.004107 and CSR has a coefficient of -1.195996 on earnings management. Consequently, the following is a summary of the research model:

Earning Management = -0.194996 CSR - 0.004107 CEO narcissism + e1

Table 6. Regression ROA result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.064647	0.017527	3.688349	0.0003
CSR	-0.433980	0.065146	-6.661608	0.0000
CEONARSIS	0.011886	0.004187	2.838736	0.1048
EM	0.044478	0.016991	2.617796	0.0093

According to the regression findings, the relationship between CEO narcissism and ROA is 0.011886, earnings management and ROA is 0.04478, and the relationship between CSR and ROA is -0.433980. As a result, the following is a summary of the financial performance research model:

ROA = -0.433980 CSR + 0.011886 CEO narcissism + 0.044478 Earning management + e2

The model's test results indicate that while the variables CSR, CEO narcissism, and earnings management have a favorable impact on ROA, they have a negative impact on earnings management. Table 6 presents the results of the hypothesis testing, and it shows that the p-value for CSR is 0.0000, which is less than 0.05. Consequently, it may be said that financial performance is significantly impacted by CSR. However, the p-value for CEO narcissism is 0.1048, greater than 0.05, indicating that this research supports the notion that CEO narcissism has no discernible impact on the financial performance of manufacturing companies listed on the Indonesian Stock Exchange (BEI).

Table 7. Direct hypothesis test result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.064647	0.017527	3.688349	0.0003
CSR	-0.433980	0.065146	-6.661608	0.0000
CEO narcissism	0.011886	0.004187	2.838736	0.1048
Earning management	0.044478	0.016991	2.617796	0.0093

Table 8. Indirect hypothesis test result

Variable	A	B	Std. Error A	Std. Error B	Sobel Test Statistic	p-value
CSR – EM - ROA	-1.1949	0.04447	0.20303	0.01699	-2.39157150	0.01677
CEO – EM - ROA	-0.0041	0.04447	0.01373	0.01699	-0.29669254	0.76670

The findings of the Sobel Test-based indirect hypothesis testing are shown in Table 8. According to the estimation results, the Sobel Test statistical value is -2.392571, which is below 1.96, and the probability value is 0.01677, which is below 0.05, for the mediating influence of profits management between CSR and financial performance. This suggests that the relationship between CSR and financial performance is not mediated by earnings management. Comparably, the estimation results for the Sobel Test statistical value of -0.29669, which is below 1.96, and the probability value of 0.7667, which is above 0.05, indicate that earnings management has a mediating influence between CEO narcissism and financial performance. This suggests that the association between CEO narcissism and financial performance is not mediated by earnings management.

Table 9. Goodness of fit model

Description	Goodness of fit model
R Squared	0.851127
Adj. R-Squared	0.812634
F- Statistic	22.11088
Prob (F-Statistic)	0.000000

The model's adjusted R^2 (coefficient of determination) is 0.812634, as shown in Table 9. This suggests that CSR, CEO narcissism, earnings management, and their interactions with earnings management account for 81.26% of the variety and changes in financial performance (ROA). Other factors may impact the remaining 18.74% of the financial performance. The model's F-value is 22.11088, and its p-value, or significance level, is 0.000. Given that the significant value is less than 0.05, it is appropriate to conduct additional research on this regression model as it offers valuable insights into the relationship between CEO narcissism, CSR, and earnings management and financial performance (ROA).

4.3. Discussion

The study's findings demonstrate that CSR disclosure significantly and favorably affects return on assets (ROA). The probability value is 0.0412, which is less than the significance level of 0.05, according to the t-test results. As a result, hypothesis 1 is approved. Adherence to social standards can enhance a company's legitimacy and have a beneficial financial impact, as per the legitimacy theory that posits corporations are a part of society and should follow social norms. It is anticipated that this will raise business awareness of CSR disclosure and participation. It is also envisaged that in the future, investors will understand the significance of social responsibility issues, encouraging businesses to truly fulfill their social obligation by maximizing the positive consequences of their operations and limiting the negative ones. Companies can benefit from strong market performance in the long run, which helps society as a whole.

The results of this investigation are in line with those of studies by [8], [47], and [48], which show that financial performance has benefited from corporate social responsibility. This is in contrast to a study by [48], which concluded that there is no discernible relationship between CSR and financial performance. Whether a corporation discloses more or less information about CSR, has no bearing on its financial performance. According to the findings of the second hypothesis, return on assets is positively but not significantly impacted by CEO narcissism disclosure. The probability value is 0.1048 based on the t-test findings, which is higher than the significance level of 0.05. Consequently, hypothesis 2 is disproved. The top echelon theory states that leaders' strategic choices have an immediate effect on the results of their organizations. The traits that a CEO possesses undoubtedly have a big impact on the company's results, which in this case is ROA. This hypothesis also clarifies how top management's cognitive ability is determined by their degree of management education. In [55] top managers are more comfortable making strategic choices for the organization at greater levels of authority.

The researchers' analysis indicates that the reason for the inconsistent results is that the CEO narcissism measurement was based on a photo size that did not represent its impact on the company's financial performance. The CEO's haughtiness and narcissism are not adequately reflected in the size provided in the annual report [56]. Management mostly uses the CEO's photo display to present stakeholders inside the company's organizational structure. These results corroborate studies [13] and [20], which claim a favorable but not statistically significant impact of CEO narcissism on financial performance. Because narcissistic CEOs tend to have a stronger influence on staff motivation, the narcissistic features of the CEO do not significantly impair the performance of the company. The research by [28], which claims that CEO narcissism has a beneficial impact on business performance, conflicts with the findings of this study. Based on the Sobel test calculator, the assessment of the mediating influence of earnings management on the relationship between CSR and financial success shows that the probability value is below 0.05 and the Sobel test statistic is -0.29669, which is below 1.96. Consequently, hypothesis 3 is disproved. Agency theory states that the rivalry between management as agents and business owners as principals, who both aim to attain or take into consideration their desired level of prosperity, has an impact on earnings management techniques. According to legitimacy theory, businesses can use corporate social responsibility (CSR) to improve financial performance or prosperity by legitimizing society. The researchers' data indicates that managers can take advantage of this position for earnings management if they have a deep managerial understanding of the organization. Financial statements are rendered erroneous by earnings management, which prevents investors and other statement consumers from

learning true facts about the business. These results corroborate those of a study by [17], which concluded that earnings management was ineffective in mitigating the impact of CSR on financial performance. This can be explained by the fact that it is challenging for stakeholders to identify signs of earnings management due to their lack of experience with evaluating the information they obtain from the market. Financial statements and sustainability reports do not directly show the actions of earnings management. In line with these findings, research by [57] also discovered that earnings management is unable to control the correlation between ROA and CSR. These results, however, go counter to those of [58], who claimed that the relationship between CSR and financial performance can be negatively impacted by earnings management acting as a mediator.

Based on the Sobel test calculator, the assessment of the mediating influence of earnings management on the relationship between CEO narcissism and financial performance shows that the probability value is 0.7667, which is above 0.05, and the Sobel test statistic is -0.2391, which is below 1.96. Consequently, hypothesis 4 is disproved. According to agency theory, CEOs have the power to influence businesses in ways that serve their own interests—interests that might not always coincide with those of the owners. According to upper echelon theory, businesses can use corporate social responsibility (CSR) to improve financial performance or prosperity by giving society a sense of legitimacy.

The study's focus on the individual narcissistic characteristics of CEOs explains why earnings management is unable to moderate the association between CEO narcissism and financial performance, according to the researchers' analysis. CEOs who exhibit narcissistic qualities are not focused on techniques for managing earnings, regardless of whether their revenue is increasing or decreasing. Larger levels of narcissism among CEOs do not equate to higher levels of earnings management. CEO narcissism frequently steers their conduct toward immoral practices like earnings manipulation [59]. Moreover, [60] clarify that narcissistic CEOs are unlikely to manipulate earnings in order to satisfy their egos. The study by [20], which discovered that CEO narcissism has no appreciable impact on earnings management, lends credence to these conclusions. Additionally, because accruals and thorough disclosure are used, in paper published by [8] demonstrates that earnings management does not affect financial performance. Full disclosure enables management to provide comprehensive financial data that accurately reflects the company's current state.

5. Conclusion

Results of this study's data testing for manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2017 and 2021 indicate that there is no significant relationship between CEO narcissism and financial performance, earnings management cannot mediate the relationship between CEO narcissism and financial performance, and neither can CSR and earnings management significantly affect financial performance. It is advised that the research object be expanded in future studies to encompass all companies listed on the IDX, rather than only those engaged in manufacturing. Further variables that impact earnings management and financial success, including stock returns and economic value added (EVA), should be included to further strengthen the research's comprehensiveness and raise the adjusted R-square value.

Author contribution

Ang Swat Lin Lindawati: introduction, phenomena; Alexandra Morgan Tjoe: literature, hypothesis development; Bambang Leo Handoko: analysis and interpretation of data, analysis discussion; Elidjen, research methodology, conclusion and suggestion.

Declaration of competing interest

The authors declare that they have no known financial or non-financial competing interests in any material discussed in this paper.

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